Price, quality and reputation on eBay

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Common insights

- Quality is not perfectly observable on eBay
  - would the seller deliver?
  - is the delivered quality as good as promised?

- In theory: if there is no third-party certification,
  advertising ⬆ reputation ⬆ quality ⬆ price ⬆
  - Based on repeated sales
    - Buyer is able to tell the quality after purchase
    - Buyer is able to track seller identity
    - Smooth communication across buyers
    - Advertising is costly

Research design

- Step 1: watch baseball cards market
  - Probability of completing the auction
  - Final price
  - Seller claim of quality
  - Seller/buyer reputation

- Step 2: field experiment for ungraded cards
  - Buy ungraded cards by high or moderate seller claims
  - Send them to professional grading
  - Examine seller claim, true quality, price and reputation
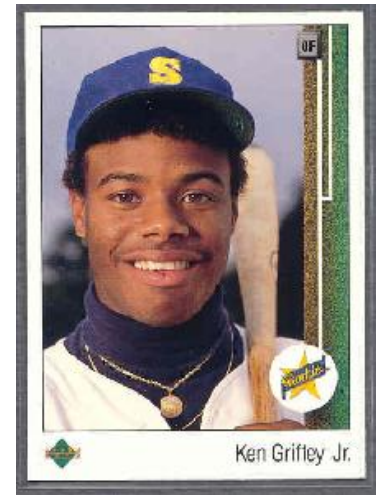
Market watch

- Higher price for graded than for ungraded cards

- 20%-50% price premium for ungraded cards with high and incredible claims

- Seller reputation has a positive impact on the probability of completion, but no impact on final price

- P ⇑ reputation ⇑ ➔ quality ⇑
  seller claims ⇑

? Reputable sellers are less likely to make high claims of ungraded quality

? Buyers with more ratings tend to avoid ungraded cards, especially those with high quality claims

Experimental results

- High claims of ungraded cards
  - more frauds (no delivery or counterfeit)
  - no better quality conditional on non-fraudulent transactions
- Better seller reputation
  - Less fraud
  - No better quality conditional on truthful delivery
- In some range, p ⇧ quality ⇩

  reputation -?- quality

What do we learn?

- Careful with the market watch data
- Some buyers (especially inexperienced ones) are misinformed
- Open doors for fraudulent sellers
- Seller reputation provides limited information
  - Universal ratings
  - Most ratings focus on delivery, not the quality of the delivered goods
  - Anonymous id switch